

## Production Subcontracting: A Policy Issue for Small and Medium Scale Manufacturing Industries in Nigeria

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### **Abstract**

*This study set out to examine production subcontracting as an alternative policy strategy for the development of small and medium scale industries in Nigeria. Using a purposive random sampling, the study selected 50 SMLs from 100 SMLs identified from the industrial directory of the study area. Based on the literature, harnessing economic potentials of SMLs in Nigeria will continue to be a mirage since several policies aimed at SMLs development have not stand the test of time due to poor and erratic implementation. Analysis carried out in this study showed that while 63% of the respondents (SML operators) were motivated to use production subcontracting process because it reduces their cost of production, 20% of the respondent made use it because of the market it creates for their products. Similarly, there was a general acceptance of the process as reducing cost of operation; improving service quality, enhancing core business capacity and creation of markets were the most commonly accepted benefits of production subcontracting by the respondents. This paper therefore recommended that subcontracting processes be made an industrial policy or infused into the existing SML policies so as to make them more proactive and pragmatic in the development of SMLs in Nigeria.*

**Keywords:** Subcontracting, Small and Medium Scale industries, Manufacturing Economic policies

### **1. Introduction**

The role of Small and Medium Scale Industries (SM1s) in the national economy cannot be wished away. These industries are being given increasing policy attention in recent years, particularly in third world countries partly because of growing disappointment with results of development strategies focusing on large scale capital intensive and high import dependent industrial plants (Kayode, 2001). The development of small and medium scale industries in an economy guarantees the greater utilisation of local raw materials, employment generation, encouragement of rural development, development of entrepreneurship, mobilisation of local savings, linkages with bigger industries, provision of regional

balance by spreading investments more evenly, provision of avenue for self-employment and provision of opportunity for training managers and semi-skilled workers (Muritala, Taiwo and Awolaja, 2012). Apart from their potential for ensuring a self reliant industrialization, in terms of ability to rely largely on local raw materials, small and medium scale enterprises are also in a better position to employ raw materials, guarantee a more even distribution of industrial development in the country, including the rural areas, and facilitate the growth of non-oil exports (Oni and Daniya, 2012).

The adoption of the economic reform programme in Nigeria in 1986 has been a decisive switch of emphasis from the capital intensive, large scale industrial project based on the philosophy of import substitution to micro, small and medium scale enterprises with immense potentials for developing domestic linkages for rapid, sustainable industrial development. These economic reforms started with the Structural Adjustment Programme (SAP) which was adopted to fill the supply gap in industrial consumer goods created by the difficulties faced by large scale firms which have not easily adapted to the policy changes of SAP (Afolabi, 2013). The little progress recorded from the courageous efforts of the first generation indigenous industrialists was relatively wiped out by the massive dislocations and traumatic devaluation which took place under the Structural Adjustment Programme (SAP). In view of this and in order to ensure the realization of the potential benefits of virile SME in the economy, a number of economic policies were initiated by the Government and its subsidiary agencies such as the Central Bank of Nigeria (CBN) and the Micro and Medium Enterprises Development Agency of Nigeria (SMEDAN). Some of these policies which included National Economic Reconstruction Funds (NERFUND), Small and Medium Industry Equities Investment Scheme (SMIEIS), National Poverty Eradication Programme (NAPEP), National Economic and Empowerment Development Strategy (NEEDS), among others.

As laudable as these programs are, quite a few were able to have reasonable impacts on the development of SMLs in the country. In order to ensure the survival of the current drive to boost the operations of SMLs in Nigeria which was initiated by the transformation agenda of the Federal Government of Nigeria and the cluster development Approach of the Ministry of Trade and Investment in the country, SMI programmes and policies should look beyond its present preoccupation (Finance, weak infrastructures, multiple taxation, obsolete technology etc). This paper is therefore oriented to examine the performance of several policies aimed at developing Small and Medium Scale Industries in Nigeria and how these policies can be made better by the adoption production subcontracting strategies in the SMLs sector. The rest of this paper is structured as thus: Literature review, Theoretical framework, Method and Materials, Result and Discussion, Summary and conclusion.

## **2. Literature Review**

The definition of small and medium enterprises (SMLs) varies from country to country, region to region and from agencies to agencies in today's world. In countries such as the USA, Britain, and Canada, small-scale business is defined in terms of annual turnover and the number of paid employees (Evbuomwan, Ikpi, Okoruwa, Akinyosoye, 2013). In the Nigerian concepts however, the perception of SMLs are somewhat divergent. The Central Bank of Nigeria in collaboration with the Small and Medium Industries and Equity Investment Scheme (SMIEIS) defined small and medium scale industries as any enterprise with a maximum asset base less than N200 million (equivalent of about \$1.43 million) excluding land and working capital, and with the number of staff employed not less than 10 (otherwise will be a cottage or micro-enterprise) and not more than 300 (Sanusi 2003; Udechukwu 2003; Akabueze 2002; SMIEIS 2002; and Sanusi 2004).

Similarly, a plethora of studies have been dedicated on the activities and performance of small and medium scale industries in Nigeria. These studies which have been analysed under different perspectives have been geared towards economic and industrial development of Nigeria. Some of the areas where this sector has been examined include finance (Osoba, 1987; Etim, 2010; Akingunola, 2011; Evbuomwan et.al, 2013; Afolabi, 2013; Adigwe, 2012), Economic growth and development (Adelaja, 2002; Oluba, 2009; Ogunsiyi and Ladamu, 2010; Asta and Zaneta, 2010; Ayozie, 2011) Constrains to SMI development (Aremu and Adeyemi, 2011, Chidi and Shadare, 2011; Agwu and Emeti, 2014). The innovations of these studies have rarely culminated into any tangible solution to the plethora of problems bedevilling the small and medium scale sector in the country. While most of them have no stack differences from the existing SMLs policies and programmes, others lack practicable and realistic drive with which to proffer solutions to the existing status quo. The above scenario has equally been the bean of various economic policies and programmes mapped out by both the government and its agencies for the revival and sustenance of the sector. Most of these policies were not structured with the organizational characteristics of the SMLs in country and this as a result have made impossible for these policies to achieve positive results in the country. For instance most credit facilities made available for the development of SMLs in the country can only be accessed by formal SMLs who are registered with the Government while it is on record that more than 60% of SMLs in Nigeria are informal and are not registered with the Government (Survey report on Micro, Small and

Medium enterprises in Nigeria, 2010). This according to the report has not only made the policies to suffer serious under achievement it has equally made the SMLs in the country unproductive. Generally most of the policies as will be seen in the next section lacked both the proper economic articulation to move the sector forward.

## 2.1 A review of economic policies and programmes for SMLs development in Nigeria

Over the years a number of policies have been formulated by the Nigerian Government with a view to developing Small and Medium Scale Industries. These policies include funding and setting up industrial areas and estates (to reduce overhead costs), providing local finance through its agencies such as the Central Bank of Nigeria, Federal Ministry of Industries (Small-scale industry credit scheme - SSICs), Nigerian Industrial Development Bank (NIDB), and Nigerian Bank for Commerce and Industry (NBCI). Others include facilitating and guaranteeing external finance through the World Bank, African Development Bank and other International Institutions willing to, and capable of assisting SMEs, Setting up of erstwhile National Economic Reconstruction Fund (NERFUND) which is a source of medium to long-term local and off-shore loans for small and medium scale businesses, particularly those located in the rural areas. To buttress our points, the following policies will be critically x-rayed. These policies are:

### 2.1.1 The Central Bank of Nigeria special credit programme for Small and Medium Scale Industries (SMLs).

The central bank of Nigeria is the principal agent for implementing government financial and monetary policies and has over the year introduced a number of schemes for promoting improved access to credit for industrial development particularly in SMLs (). The thrust of the schemes under the bank's monetary policy guidelines of 1988 was that at least 10% of commercial bank loans and advances were allocated to SMLs. In April 1980, loans and advances available to SMLs rose from 10% to 20% in January, 1991. (Bullion and CBN 1992) It was also clearly stated that stringent penalties await those who disregard the directive. In reality, this scheme has not succeeded. This is because the relationship between commercial banks total credit to loans to small and medium scale industries from 1992 to 2006, made it clear that this sector has not fared well in going to financial institutions to advance credit (see table 1).

**Table 1:** Ratio of loans to small scale enterprises to commercial banks' total credit (1992-2006)

Year	Commercial Banks Loans to SMLs (N'm)	Commercial Banks Total Credit (N'm)	Commercial Bank Loan to SMLs as % of total credit
1992	20,400.0	41,810.0	48.8
1993	15,469.9	48,056.0	32.2
1994	20,552.5	92,624.0	22.2
1995	32,374.5	141,146.0	22.9
1996	42,302.1	169,242.0	25.0
1997	40,844.3	240,782.0	17.0
1998	42,260.7	272,895.5	15.5
1999	46,824.0	353,081.1	15.3
2000	44,542.3	508,302.2	8.7
2001	52,428.4	796,164.8	6.6
2002	82,368.4	954,628.8	8.6
2003	90,176.5	1,210,033.1	7.5
2004	54,981.2	1,519,242.7	3.6
2005	50,672.6	1,899,346.4	2.7
2006	21,201.7	2,385,638.3	0.9

**Source:** CBN Statistical Bulletin Vol. 17, 2006

Furthermore, it has also been shown that funding of small and medium scale industries in Nigeria is mainly from personal savings. This was corroborated by the findings of Adebusi (1997) and the Nigerian institute for Social and Economic Research (NISER) which opined that personal savings and family contributions to the funding of small and medium scale industries stood at 96.4% and 73% respectively while that of the formal sector stood at 0.21% and 2% respectively. From the Central Bank of Nigeria report, the situation has not shown any significant changes from the evidence in the

reports of the research studies and other related researches and literature on the same subject (Etim, 2010).

### 2.1.2 *Small and Medium Scale Enterprises Development Agency of Nigeria (SMEDAN)*

The Small and Medium Enterprises Development Agency of Nigeria (SMEDAN) was established in 2003, to facilitate the promotion and development of a structured and efficient Micro, Small, and Medium Enterprises (MSMEs) sector that will enhance sustainable economic development in Nigeria (Agwu and Emeti, 2014). The Agency is the apex and coordinating institution for all matters relating to starting, resuscitating and growing MSMEs in Nigeria. This agency was structured to facilitate the access of micro, small, and medium entrepreneurs/investors to all resources required for their development as well as to establish a structured and efficient micro, small, and medium enterprises sector that will enhance sustainable economic development of Nigeria (Survey report on Micro, Small and Medium enterprises in Nigeria, 2010). However, SMEDAN which would have been pragmatic in its operation does not have wide coverage. Going by the survey exercise carried out by, it was revealed that most of the industrialists are not aware of SMEDAN. About 45.5% of the industrialist claimed ignorant of the agency's activities across the country (Survey report on Micro, Small and Medium enterprises in Nigeria, 2010). Similarly, about 90.5% of the industrialists claimed that they have not benefited from SMEDAN Services (Survey report on Micro, Small and Medium enterprises in Nigeria, 2010).

### 2.1.3 *The Small and Medium Enterprises Equity Investment Scheme (SMEEIS)*

The SMEEIS initiative was in response to the Federal Government's concerns and policy measure towards the aggressive and radical transformation of the sub-sector through the provision of adequate and cheaper funding. All the commercial banks operating in Nigeria were required to set aside 10% of their profit after tax (PAT) for equity investment in small and medium enterprises in Nigeria. The cumulative sum set aside by the banks under the scheme as at December, 2009 was N42 billion. However, the scheme did not achieve the desired impact as most SMIs were not interested in the equity participation for fear of losing control of their enterprises. Even then, most of them lack the 60% equity contribution which resulted in delay disbursement as the borrowers were deemed to be uncooperative (Oluba, 2009). This was also corroborated by the works of Evbuomwan et al (2013) which revealed that too many stringent requirements for the assessment of SMEEIS credits with 48.1% and long/cumbersome processing period which scored 37% lead to collapse of the scheme in Nigeria. The above analyses have shown that most policies and programmes initiated by the Government and its Agencies have not been able to improve the status of SMIs in Nigeria. This paper therefore looks at how the infusion of industrial cooperation through production subcontracting into the SMI programme and policies in Nigeria can aid the development of the sector.

## 3. **Theoretical Framework of Subcontracting**

Subcontracting is usually defined as a situation where the firm offering the subcontract requests another independent enterprise to undertake the production or carry out the processing of a material, component, part or subassembly for it according to specifications or plans provided by the firm offering the subcontract (Holmes, 1986; Taymaz and Kilicaslan, 2005).

There are two approaches to subcontracting in entrepreneurship development, namely: the traditional and the modern approaches (Watanabe, 1971; Berger & Piore, 1984; Holmes, 1986). The traditional approach looks at subcontracting as unequal, asymmetric power relationships between two different sets of enterprises: the large firms and the small firms (Berger & Piore, 1984; Holmes, 1986; Watanabe, 1971).

The modern approach treats subcontracting as a network of cooperative inter-firm links among interdependent small firms forming a business ecosystem (Taymaz & Kilicaslan, 2002; Tilman, 2004; Ceglie & Dini, 1999; Rama & Calatrava, 2002). This approach, looks at a group of firms cooperating (and competing) within a complex web of supportive institutions. Externalities, linkages and economics of scale generated by this form of cooperation and competition are internalized by the network so that the collective efficiency and flexibility of the industry is enhanced. Ceglie and Dini (1999) suggest that on the account of the common problems firms all share, small and medium scale firms are in the best position to help each other. They can do this through horizontal cooperation (they can collectively achieve economies of scale), vertical cooperation (they can specialize in their core activities and develop the external division of labour) and networking among enterprises, providers of business development services, and local policy makers.

Considering the orientation of this paper, the modern approach to production subcontracting will be used to access the impact of subcontracting on the SMIs in the region

#### 4. Methods and Materials

The purpose of this study was to examine production subcontracting as an alternative policy strategy for the development of SMIs in Nigeria following its impacts on SMIs in Onitsha Metropolis Anambra State Nigeria. To achieve this, both secondary and primary data were used for the study. Secondary data were sourced from published journals, textbooks; internet and other documentary materials. These sources provided the base for both the literature and the theoretical framework of this paper. With the aid of a structured questionnaire, primary data were sourced from small and medium scale industries identified in the 2006 industrial directory of the Ministry of Commerce and Industry Awka, Anambra State Nigeria (Manufacturers Association of Anambra State, Nigeria 2006). Using a purposive random sampling technique, the study selected 50 SMIs from 100 SMIs identified from the industrial directory in the study area. This number was selected in order to effectively manage the cost of this research. Open and closed ended - structured questionnaire was used to gather information on firm characteristics, subcontracting motivations, benefits of production subcontracting as well as their constraints. A combination of analytical tools was employed in order to achieve the objective of the study. These include descriptive statistics of mean and standard deviation. Tables and charts were also used to present results. All analyses were carried out with the aid of Statistical Packages for Social Sciences version 17 (SPSS 17).

#### 5. Results and Discussion (Analysis of Production Subcontracting)

##### 5.1 Structural Characteristics of Industries

This paper adopts the classification of SMEDAN (2007) which is based on dual criteria, employment and assets (excluding land and buildings) of the industrial units.

The size of firms entails measuring the average number of employees in each of the industries. Size of an industry reflects how large or small an enterprise is in terms of employment. With reference to SMEDAN (2007) classification of small and medium scale industries in Nigeria, industries units with a maximum asset base between 5 and less than N 50 million excluding land and working capital and with the number of staff employed between 10 and 49 can be referred to as small scale industries while industries with an asset base between 50 and less than 500 million including working capital but excluding cost of land and with a labour size of between 50-199 workers can be regarded as medium scale manufacturing industries. Based on this classification, it was revealed that 68.0% of the industries employed between 10-49 workers, a further 28.0% employed between 50 and 199 workers while 4.0% of the industries employed more than 199 workers (see table 2).

**Table 2:** Size of industries in the Study Area (number of employees).

Asset Base (Million N-Naira)	No of Employees	Frequency	Percentages (%)
N5 and less than N 50	10-49	34	68.0
N 50 and less than N500	50-199	14	28.0
Above	More than 199	2	4.0
Total		50	100

**Source:** Field work 2014

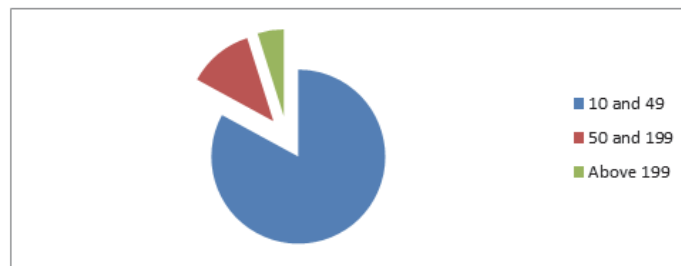
The result in table 2 has shown that industrial activities in the study area were dominated by small and medium scale industries. This means that small and medium scale industries are the fulcrum of industrial activities in the study area. This goes to show that the area is at the centre of entrepreneurship development driven by individual creativity and innovation which and forms the vanguard of the modern enterprise sector and a propelling force for economic modernization (Nwokocha, 2014).

##### 5.2 Production subcontracting decisions by firm size

Production subcontracting decisions by firm size revealed that industries employing between 10-49 workers have a



subcontracting percentage of 68.0 % while the other industries employing between 50-199 workers and above 199 workers have 10% and 4% share respectively (see fig 1)

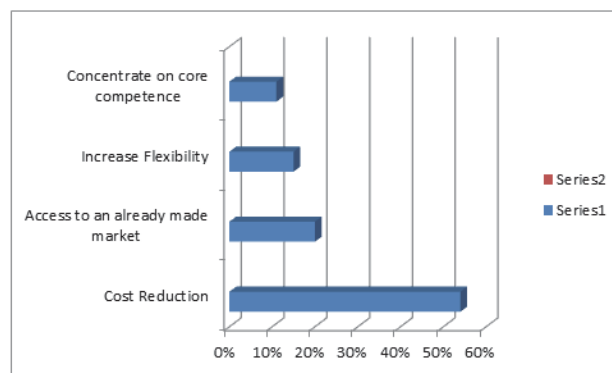


**Figure 1:** Percentage of production subcontracting decision by firm size

The result in fig 1 shows that the industries identified in the study area makes use of production subcontracting. The result also revealed that not all the industries make use of this production process. From our investigation, only 10% of the medium scale industries in the study area are more likely to offer subcontracting processes while the remaining 18 % were not engaged in the process. This from our observation was largely due to their ability to accommodate most of their production processes in-house while importing other essential parts. Furthermore, while some industries were not engaged in production subcontracting because of the former reasons, others more especially the small scale industries were engaged in this production process because going by their capital base and structure, they were unable to fund all the processes leading to the production of a finish goods in their industries and therefore outsourced those parts and components that were not within their core competencies to other independent industries.

### 5.3 The Motivations of Production Subcontracting

There are a good number of reasons why small and medium industries engage in production subcontracting. From our investigations, it was observed that SMLs engage in this production process in order to reduce production cost, increase flexibility, gain access to an already made market it provides and to concentrate on their core competence. The analysis of these motivations shows that 54% of the respondents were engaged in production subcontracting in order to achieve reduction in their production cost while 20% of the respondents made use of the process because it creates an already made market for their products. This particular scenario was observed in the plastic, rubber and allied SMLs where items produced by these industries are used by other industries in packaging and distribution of their products. This kind of synergy was observed to exist between plastic, rubber and allied firms and food and chemical industries and this has lead to the reduction in the cost of production in some industries and creating markets for the other industries. Similarly, 15% of the respondent made use of this production process in order to increase flexibility in their industries while 11% made use of it in order to concentrate on their core competence (see fig 2).



**Figure 2:** Percentage Distribution of Motivations of Production Subcontracting

The above result has shown that this work not only supports the modern theoretical approach to subcontracting which treats subcontracting as a network of cooperative inter-firm linkage among interdependent SMIs forming a business ecosystem it has also shown that this process has a direct impact on the industrial activities of SMIs in the study area. This can also be corroborated by the Taymaz and Kilicaslan, (2004) which stated that the main benefits accruing to firms from subcontracting are the advantages of flexibility and cost reduction. The firms may seek to subcontract a part of their (unskilled labour-intensive) production operations to take advantage of lower wages in other firms. Subcontracting can also be used by firms to cut the fixed costs, because they can spread out their costs through subcontracting and this on the other hand, encourages the production activities in small and medium scale industries (Abraham and Taylor, 1996).

The facts above have shown that rather than develop economic policies that will address such problems as finance, infrastructure, double taxation, etc which has constantly formed the framework of the policies formulated to develop SMIs in Nigeria both in the past and at present, it could be more productive if practicable economic strategies such as production subcontracting are initiated in order to help industries reduce their cost of production and create markets for their products. In other words economic strategies initiated to galvanise this sector should lay more emphasis on externalisation. The externalization processes will not only lead to production cost reduction; it will also create already made market for the industries as well as reducing the cost of establishing and running new industries in the country.

#### 5.4 Benefits and Constraints of production subcontracting

The benefits of production subcontracting are immeasurable. In a broad sense subcontracting can satisfy the need of traders and producers to reap the gains of specialization and low cost of production. In particular subcontracting may offer an improvement over the original situation of small, medium and large scale producers. Furthermore, not only does this arrangement enables greater flexibility of production and adjusting easily to changing demand patterns, subcontractors have got the assurance of a secure market for their products. This enables them to sale the products without difficult marketing efforts and to concentrate on other aspects of production and management process.

In view of this, seven (7) common factors were synthesized from the field observations as the common benefits of production subcontracting in the region. These benefits were synthesized based on the responses of the industrialist who were asked to rank these benefits on a five point likert - type scale ranging from 1 = "not at all important" and 5 = "very important" in relation to their operational experience and according to how they apply to their industries. The result is presented in table 3.

**Table 3:** Descriptive Statistics showing the benefits of production subcontracting

Variables	N	Range	Minimum	Maximum	Mean	Std
	Statistic	Statistic	Statistic	Statistic	Statistic	Deviation
Create an already made market	50	2.00	3.00	5.00	4.12	0.61
Improves service quality	50	1.00	4.00	5.00	4.52	0.50
Access advance technology	50	1.00	3.00	4.00	3.65	0.48
Decrease and sharing of risk	50	2.00	3.00	5.00	3.55	0.65
Expands market and enhance competition	50	3.00	2.00	5.00	3.38	0.69
Release key internal resources	50	3.00	2.00	5.00	4.18	0.72
Reduce Operation cost	50	3.00	2.00	5.00	4.23	0.77
<b>Valid N</b>	<b>50</b>					

**Source:** Author's computation and Field work 2014

From the analysis in table 3, there is a positive overall view regarding the benefits of production subcontracting. Reducing cost of operation, improving service quality, enhancing core business capacity and creating an already made market with average mean and standard deviation values of 4.23 (SD = 0.77), 4.52 (SD = 0.50), 4.12 (SD= 0.61), and 4.18 (SD = 0.72) respectively were the most commonly accepted benefits of production subcontracting by the respondents (Industrialists). This is because most of these small and medium scale industries have highly standardized production processes and with great differences in the labour, capital, and skill-intensiveness of the different stages that make up these processes, they subcontract most of these stages in order to enjoy the benefits of production subcontracting as was mentioned above. Compared with the previous analyses, these factors were also significant in the decisions to engage in production subcontracting by the industries in the study area. Furthermore, these results support the existing

findings of Pagnocelli, (1994) and Quinn and Hilmer, (1994) which state that industries that make strategic use of subcontracting arrangements can become focalized, streamlined and agile in their operations and subcontracting peripheral activities can allow the organization to concentrate on its core businesses, thereby enabling the organization to maximize their return on internal resources. It also supports the findings of Tijun, Sandal, Jiehong and Dandan (2009) which states that reducing costs, focusing on core business functions, improving the quality of service and releasing key internal resources effectively are the common accepted advantages of outsourcing in East China.

### 5.5 Limitations of production subcontracting

Despite the benefits of production subcontracting, there are some other problems limiting an effective production subcontracting in the region. These problems based on our observation in the field have been synthesized into seven factors, and how they appeal to the industries were analysed using a five point likert - type scale ranging from 1 = "not at all important" and 5 = "very important" in relation to how they affect the industrialist (table 4).

**Table 4:** Descriptive Statistics showing the limitations of production subcontracting

Variables	N	Range	Minimum	Maximum	Mean	Std
	Statistic	Statistic	Statistic	Statistic	Statistic	Deviation
Lose control of the business	50	0.00	2.00	2.00	2.00	0.00
Legal disputes	50	0.00	2.00	2.00	2.00	0.00
Weaken culture	50	2.00	1.00	3.00	1.82	0.72
Decrease compatibility of innovation	50	1.00	3.00	4.00	3.52	0.50
Disclosure of commercial secrets	50	3.00	2.00	5.00	4.23	0.77
Interest conflicts with subcontracting partners	50	3.00	2.00	5.00	4.18	0.72
Unfulfilled orders from subcontractors	50	1.00	3.00	4.00	3.52	0.50
Valid Number	<b>50</b>					

**Source:** Author's computation and fieldwork (2014)

The analysis showed in table 4 revealed that the majority of the industries believed that engaging in production subcontracting has a number of risks associated with it. From the analysis in table 17, most of the industries identified: disclosure of commercial secrets, interest conflicts, decrease compatibility of innovation and Unfulfilled orders from subcontractors with mean and standard deviation values of 4.23 (STD = 0.77), 4.18(STD = 0.72), 3.52 (STD = 0.50) and 3.52 (STD = 0.50) respectively as the major problems encountered in the process of engaging in production subcontracting while legal disputes, lose control of the business and weaken culture with mean and standard deviation values of 2.00 (STD = 0.00), 2.00 (STD = 0.00) and 1.82 (STD = 0.72) respectively were seen by the respondents as posing little or no problems to them. Disclosure of commercial secret and interest conflict with subcontractors with mean values of 4.23 (STD = 0.77) and 4.18 (STD = 0.72) appear to be the greatest limitations facing this process. Most of the industrialists interviewed had experienced these problems at one time or the other making them either to change their subcontracting partner or acquire the capacity to handle the activity (ies) in house. For instance the industrialist in aluminium and metal industries complained that their subcontracting partners steal their designs, styles and ideas. These designs according to them are either sold to their business rivals or they are used by the subcontractors to manufacture their own products causing them serious losses in business. Other problems disclosed by the industrialist in the course of the field work include: lack of mutual trust between industries and the absence of an established institution which is able to link these industries in such a way that industries can easily find subcontracting partners within or outside their localities. About 50% of the industrialist disclosed that lack of mutual trust between industries hinders their willingness to engage in this process. This according to them is caused by disclose of commercial secrets by their subcontracting partners and constant cases of unfulfilled order. But however, they were quick to reiterate that despite these short comings, the practice have come to stay as most of them do not have enough resources to handle all their production process in-house.

These limitations and challenges that constitute a set back to the advancement of this process can be solved by developing a subcontracting agreement model that will encompass, among others things, the duties and responsibilities of both the contractor and subcontractor in accordance with the existing laws and practices in the world. This agreement model will evolve a respectable and acceptable code of business behaviour on both sides to guide this arrangement. This



code of business behaviour will encompass a body of laws and principle which will be helpful for firms to make the rational decision or to seek redress once there is bridge of contract.

## 6. Summary of Findings and Conclusion

Based on the findings in the study, economic policies and programmes initiated by both the Government and its subsidiary agencies have made little or no progress in developing and rejuvenating the small and medium scale sector in Nigeria. This can be seen from the achievement of the various programmes initiated by the authorities to this effect. Programmes such as the special credit programme for SMIs development initiated by the CBN, have shown that the overall contribution of the formal sector to the growth and development of SMIs in the country stood at 0.21% and 2% respectively while the relationship between commercial banks total credit to loans to small and medium scale industries from 1992 to 2006, made it clear that this sector has not fared well in going to financial institutions to advance for credit.

Similarly, it was also revealed that about 45.5% of the industrialist in Nigeria claimed ignorant of the SMEDAN activities across the country (Survey report on Micro, Small and Medium enterprises in Nigeria, 2010) while about 90.5% of the industrialists claimed that they have not benefited from SMEDAN services since its inception (Survey report on Micro, Small and Medium enterprises in Nigeria, 2010). The facts above have shown that rather than develop economic policies that will address such problems as finance, infrastructure, double taxation, etc which has constantly formed the framework of the policies formulated to develop SMIs in Nigeria both in the past and at present, it will be more productive if economic policies targeted at the revitalization of SMIs in the country look beyond the usually mundane issues of finance, infrastructure, double taxation etc.

Building on the above findings, this paper revealed that industrial activities in the study area were dominated by small and medium scale industries. This means that small and medium scale industries are the fulcrum of industrial activities in the study area. While majority of the industries are inclined to the use of production subcontracting, reduction in the cost of production was the major driving force behind the adoption of the process by the industrialist.

Similarly, the paper also revealed that there is a positive overall view regarding the benefits of production subcontracting. Reducing cost of operation, improving service quality, enhancing core business capacity and creating an already made markets were the commonly accepted benefits of production subcontracting by the respondents (Industrialists) in the study area while disclosure of commercial secrets, interest conflicts, decrease compatibility of innovation and Unfulfilled orders from subcontractors were the major problems encountered in the process of engaging in production subcontracting.

This paper so far has shown that development of the SMI sector in Nigeria cannot rely solely on the existing economic policies and programmes. Most of these policies and programmes adopted by the authorities were not formulated and guided by the operational characteristics of SMIs in the country and therefore lacks the necessary framework to address the problems of the sector. Following the observations and findings made in this paper, externalization of production function through production subcontracting have shown a greater and a more imminent impact on the activities of the sector. This assertion can be supported by our findings on the motivations and benefits of subcontracting which underscored cost reductions as the major proponent of this process. This was affirmed by about 50% of the respondent while approximately 78% of the industries in this sector (small scale industries-68%, medium scale industries- 10%) make use of this process. In other words small and medium scale firms are in the best position to help each other. They can do this through horizontal cooperation (they can collectively achieve economies of scale), vertical cooperation (they can specialize in their core activities and develop the external division of labour) and networking among enterprises.

## 7. Conclusion

There is no doubt that SMIs contribute tremendously to the nation's economic development. Harnessing these economic potentials of SMIs in Nigeria will continue to be a mirage since several policies aimed at SMIs development have not stand the test of time due to poor and erratic implementation. This situation however can be improved upon if SMIs in the country are made to adopt externalisation processes through subcontracting in their industrial activities. The impact of this process which stems from production cost reduction and creation of markets to the general acceptability of the process by SMIs in the study area will not only help in the development of the sector, it will also help reduce the drive for the importation of industrial parts and components by SMIs, creating more opportunities for new SMIs to be established.

On the strength of these facts, this paper therefore recommend that subcontracting as a production process be

made an industrial policy or infused into the existing SMI policies so as to make them more proactive and pragmatic in solving SMIs problems in Nigeria.

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